LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6484
BILL NUMBER: HB 1088

NOTE PREPARED: Jan 2, 2012
BILL AMENDED:

SUBJECT: County and Municipal Income Taxes.

FIRST AUTHOR: Rep. Thompson
FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X **GENERAL**
DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill allows a county to use an additional county adjusted gross income tax (CAGIT) rate or county option income tax (COIT) rate to reduce all property tax levies imposed by the county by granting property tax replacement credits against those property tax levies to all taxpayers. It allows a municipality to adopt a municipal income tax if the municipality is located in such a county. It requires an adopting municipality to provide property tax relief for property owners in the municipality by freezing the levy or providing general property tax replacement credits, homestead credits, or local property tax replacement credits for residential property, or any combination of the permitted forms of relief.

The bill provides that the maximum municipal option income tax rate is the rate specified for the reduction of the county levies. It provides that the combined municipal and county rates may not exceed 1%. The bill also requires the Department of State Revenue to include on the adjusted gross income tax return a requirement that the taxpayer identify the city or town, if any, where the taxpayer's principal place of residence is located.

Effective Date: July 1, 2012.

Explanation of State Expenditures: *Department of State Revenue (DOR)*: The DOR will incur additional expenses to revise tax forms, instructions, and computer programs to implement collection of the municipal option income tax. Beginning with tax year 2012, the DOR will have to include on all individual income tax returns a requirement that each taxpayer identify the city or town, if any, where the taxpayer's principal place of residence is located. DOR is also currently investigating software to track taxpayers by municipalities. One possible software program that could be used to implement this provision is estimated to cost $750,000 with ongoing annual costs of $350,000, consisting of $150,000 for software maintenance and $200,000 for staff.

The bill also requires the DOR and the Office of Management and Budget (OMB) to develop a quarterly report that summarizes the amount reported to and processed by DOR for each city and town that has adopted the municipal option income tax.

State Budget Agency (SBA): The SBA will realize additional administrative responsibilities in administering the distribution of revenue to municipalities from the municipal option income tax. The SBA's current level of resources should be sufficient to implement these changes.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues: Under current law, a county may adopt an additional CAGIT or COIT rate of up to 1% to provide any combination of (1) property tax replacement credits for all property, (2) property tax replacement credits for residential property, and (3) homestead credits. The calculated credit rates are applied to the total gross property taxes for an eligible property.

Under this proposal, a county could instead impose an income tax rate of up to 0.5% to provide property tax replacement credits against only the county unit's portion of the gross property tax bill.

If a county imposes an income tax rate for this purpose, then municipalities in the county would be permitted to impose a rate of up to 0.5% on the income of all municipal residents. The municipal tax rate may not exceed the rate imposed by the county, and the total of the two rates would be limited to 1%.

Proceeds from a municipal income tax could be used to provide any combination of (1) municipal property tax levy freeze, (2) property tax replacement credits for all property, (3) property tax replacement credits for residential property, and (4) homestead credits.

This proposal would not increase the allowable local option income tax (LOIT) rate in a county. Instead, this bill would allow a different distribution of LOIT revenues. Thirty counties have already adopted a LOIT rate to provide property tax relief credits. If additional counties adopt a rate under this proposal, then the maximum total LOIT rate for property tax relief credits in those counties would still be 1% for municipal residents, but the maximum would drop to 0.5% for residents of the unincorporated areas.

Effect on Property Tax Bills and Circuit Breakers: Under current law, the property tax circuit breaker limits property tax bills to a percentage of the property's gross assessed value. The limits are 1% for homesteads; 2% for other residential property, commercial apartments, long-term care facilities, land under a mobile home, and farmland; and 3% for all other real and personal property. Property tax credits reduce property tax bills and, therefore, exposure to the circuit breaker.

If additional counties (and municipalities) adopt a LOIT rate to provide property tax relief credits, then circuit breaker losses for local civil taxing units and school corporations in those counties could be reduced. Net property tax bills would be reduced to the extent that property tax relief credits reduce tax bills to a point below the caps.

State Agencies Affected: DOR; SBA; OMB; Department of Local Government Finance.

Local Agencies Affected: Counties, cities, and towns; Civil taxing units and school corporations.

Information Sources:

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